



[6450-01-P]

DEPARTMENT OF ENERGY

U. S. Energy Information Administration

Notice of Change to the Publication of Natural Gas Wellhead Prices

**AGENCY:** U. S. Energy Information Administration (EIA), Department of Energy (DOE).

**ACTION:** Notice of a discontinuation of series in the publication of natural gas wellhead prices and request for comments.

**SUMMARY:** EIA is announcing the discontinuation of the natural gas wellhead price series. Beginning in January 2013, EIA will discontinue publishing wellhead prices, and will begin publishing a natural gas spot price at the Henry Hub and an NGL composite spot price at Mont Belvieu. Comments are invited on the proposed change. Please provide a description of your current use of the wellhead price data if applicable.

**DATES:** Comments must be filed by [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]. If you anticipate difficulty in submitting comments within that period, contact the person listed below as soon as possible.

**ADDRESSES:** Comments should be mailed to Jose Villar, EI-24, Forrestal Building, U.S. Department of Energy, 1000 Independence Ave., S.W., Washington, D.C. 20585.

**FOR FURTHER INFORMATION CONTACT:** Requests for additional information should be directed to Jose Villar at ([jose.villar@eia.gov](mailto:jose.villar@eia.gov)) or telephone at 202-586-9613.

**SUPPLEMENTARY INFORMATION:**

I. Background

II. Discussion

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I. Background

The Federal Energy Administration Act of 1974 (Pub. L. 93–275, 15 U.S.C. 761 *et seq.*) and the DOE Organization Act (Pub. L. 95–91, 42 U.S.C. 7101 *et seq.*) require the EIA to carry out a centralized, comprehensive, and unified energy information program. This program collects, evaluates, assembles, analyzes, and disseminates information on energy resource reserves, production, demand, technology, and related economic statistics. This information is used to assess the adequacy of energy resources to meet both near- and longer-term domestic demands.

EIA requests public comment on the discontinuation of the natural gas wellhead price data in an effort to reduce data and conceptual issues associated with the series.

Historically, the EIA published natural gas wellhead prices on an annual basis by state and on a monthly basis nationally. EIA has defined the wellhead price as the per-unit value at the mouth of the well (i.e., the wellhead price is considered to be the sales price obtainable from a third party in an arm's length transaction). These data appeared in the *Natural Gas Monthly*, <http://www.eia.gov/naturalgas/monthly/>, the *Natural Gas Annual*, <http://www.eia.gov/naturalgas/annual/>, and others.

## II. Discussion

EIA will terminate its natural gas wellhead price series in December 2012 in an effort to reduce data quality and conceptual issues associated with the series. The data quality issues associated with the wellhead price series are closely related to the data quality problems that resulted in the termination of the survey Form EIA-895 *Annual Quantity and Value of Natural Gas Production Report* in 2012. The Form EIA-895 was designed to obtain monthly information on an annual and voluntary basis from the appropriate state agencies that collect data related to natural gas production. EIA discontinued the Form EIA-895 as a result of disparities in the quality of the data submissions and problems with enforcement and compliance with survey requirements. Some examples of these quality and compliance issues included delayed survey responses and incomplete submissions of key requested data elements that directly affected the EIA wellhead price estimation, such as associated volumes and revenues of marketed natural gas production. Since the termination of the Form EIA-895, EIA has explored possibilities for continuing the wellhead price series while also avoiding the shortcomings of the discontinued survey.

Conceptual issues associated with the wellhead price also contribute to the data quality problems. The wellhead price is defined as the per-unit value of natural gas at the mouth of the well. However, in practice, the concept of the wellhead price is problematic as a result of the complexities of the long-term and short-term transactions that occur between natural gas producers, processors, marketers, and consumers along the natural gas value chain, as well as to the heterogeneity of natural gas production at the wellhead. The differing quality and thermal content of natural gas at the wellhead makes comparison of prices resulting from transactions across differing regions difficult because it is often unclear whether the gas in a given transaction contains marketable hydrocarbon liquids or unmarketable nonhydrocarbon gases. Natural gas production and revenue data supplied by the states is not sufficiently detailed for making these kinds of distinctions.

As an alternative upstream price, EIA has explored using spot or bidweek prices from established hubs, such as prices for natural gas at the Henry Hub in Louisiana and the prices of selected NGLs at the Mont Belvieu location in Texas. Natural gas spot price information could resolve some of the issues associated with obtaining upstream wellhead prices for natural gas because these prices result from transactions for pipeline quality gas, which is a well-defined, uniform commodity. In theory, a wellhead price could be derived from nearby spot prices, assuming that transportation, processing, and related costs are known or knowable. However, obtaining this kind of information about the natural gas value chain leading to the market hub would likely be burdensome, and EIA currently has no plans to undertake such an analysis. As a result, EIA has begun to publish natural gas spot prices at the Henry Hub and a composite NGL price, excluding liquids produced at crude oil refineries, at the Mont Belvieu market location.

Historically, EIA has estimated preliminary values for the monthly U.S. natural gas wellhead price using a time-series econometric model, which incorporates data from historical wellhead prices, the New York Mercantile Exchange (Nymex) futures final settlement price for near-month delivery at the Henry Hub, and reported spot market prices at four major trading hubs: Carthage, Texas; Katy, Texas; Waha, Texas; and El Paso non-Bondad, New Mexico (see *Natural Gas Monthly*, Appendix A, June 2012, for details). These model-based estimates were replaced with the data submissions reported on the Form EIA-895, when the data became available. Wellhead prices have been estimated using this model through 2012. However, the growth in natural gas production in other parts of the contiguous U.S. outside of Texas has reduced the reliability of the model estimates. Moreover, with the discontinuation of the Form EIA-895, updating these estimates with reported values is no longer feasible.

EIA proposes discontinuation of the wellhead price series because wellhead price data is not readily available and spot price information can provide a reasonable substitute. Further, obtaining wellhead price information would require a comprehensive study that could prove costly and burdensome to the public and seems impractical given current resource constraints. Absent a source of wellhead price information, EIA cannot objectively verify its model-based wellhead price estimates of the national average wellhead price. Finally, natural gas spot and bidweek prices, in conjunction with NGL spot prices, provide a reasonable proxy for upstream natural gas prices.

### III. Current Actions

In September 2012, EIA began publishing the Henry Hub natural gas spot price and a Mont Belvieu NGL composite spot price in the *Natural Gas Monthly*. Beginning in January 2013, EIA will discontinue publishing wellhead prices.

**Statutory Authority:** Section 13(b) of the Federal Energy Administration Act of 1974, Pub. L. 93-275, codified at 15 U.S.C. 772(b).

Issued in Washington, D.C., on November 28, 2012.

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Stephanie Brown

Director

Office of Survey Development and Statistical Integration

U. S. Energy Information Administration

[FR Doc. 2012-29232 Filed 12/03/2012 at 8:45 am; Publication Date: 12/04/2012]